

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Acting Chairman;  
Tony Hammond, Vice Chairman;  
Mark Acton;  
Ruth Y. Goldway; and  
Nanci E. Langley

Periodic Reporting  
(Proposal One)

Docket No. RM2015-9

ORDER ON ANALYTICAL PRINCIPLES  
USED IN PERIODIC REPORTING  
(PROPOSAL ONE)

(Issued September 24, 2015)

I. INTRODUCTION

On June 12, 2015, the Postal Service filed a petition pursuant to 39 C.F.R. § 3050.11 requesting that the Commission initiate an informal rulemaking proceeding to consider changes to analytical principles relating to periodic reports.<sup>1</sup> Proposal One is attached to the Petition and identifies the proposed analytical method changes in the revenue, pieces, and weight (RPW) Methodology for Forever Stamp Usage, Stamp Breakage, and Postage in the Hands of the Public (PIHOP). *Id.* Proposal One at 1.

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<sup>1</sup> Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider a Proposed Change in Analytical Principles (Proposal One), June 12, 2015 (Petition). The Postal Service's proposal is attached to the Petition (Proposal One).

The Postal Service concurrently filed a non-public library reference, along with an application for non-public treatment.<sup>2</sup>

On June 18, 2015, the Commission issued Order No. 2545 initiating this rulemaking proceeding; providing for the submission of comments and reply comments; and appointing a Public Representative.<sup>3</sup> The Chairman asked, and the Postal Service responded to, Chairman's Information Request No. 1.<sup>4</sup> For the reasons discussed below, the Commission approves Proposal One.

## II. BACKGROUND

The Postal Service may propose a change to an accepted analytical principle “[t]o improve the quality, accuracy, or completeness of the data or analysis of data contained in the Postal Service’s annual periodic reports to the Commission...”

39 C.F.R. § 3050.11(a). The Postal Service reports RPW on a quarterly and annual basis (known as the RPW Report). 39 C.F.R. § 3050.25.

The Postal Service does not recognize all stamp sales as revenue in the month in which the stamps are sold because they will not all be used—and therefore the revenue will not be earned—in that month. See Petition, Proposal One at 3. A portion of the stamps sold will either never be used (breakage) or will be held for future use (PIHOP).<sup>5</sup> For accounting purposes, the amount of breakage and PIHOP are estimated each month.

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<sup>2</sup> Notice of Filing of USPS-RM2015-9/NP1 and Application for Nonpublic Treatment, June 12, 2015 (Notice). The Library Reference is USPS-RM2015-9/NP1, NonPublic Material Relating to Proposal One. The Notice incorporates by reference the Application for Non-Public Treatment of Materials contained in Attachment Two to the December 29, 2014, United States Postal Service Fiscal Year 2014 Annual Compliance Report. Notice at 1.

<sup>3</sup> Order No. 2545, Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal One), June 18, 2015.

<sup>4</sup> Chairman's Information Request No. 1, June 26, 2015; Responses of the United States Postal Service to Questions 1-4 of Chairman's Information Request No. 1, July 10, 2015.

<sup>5</sup> Stamp breakage refers to the stamps that have been sold by the Postal Service but will never be used due to factors such as lost or damaged stamps and collectables. Petition, Proposal One at 3. PIHOP refers to forever stamps that are being held by purchasers for future use. *Id.*

Unlike denominated stamps, forever stamps do not display a postage value on their face and can be used regardless of the First-Class postage in effect at the time. Therefore, forever stamps are assigned a category and an issue year, known as a layer. Usage is calculated through a sampling system whereby data are collected by Origin Destination Information System–RPW (ODIS-RPW) data collectors and expanded to national totals. *Id.* at 4. A separate process calculates the value of the layer used, based on the different prices at which the stamps in the layer were originally sold. *Id.* at 4-5. The estimated forever stamp usage is included in the current Book Revenue Adjustment Factor (BRAf) formula.<sup>6</sup> Petition, Proposal One at 7.

Breakage, of both forever and denominated stamps, includes collectable, lost, and damaged or destroyed stamps. *Id.* at 3. The breakage percentage is calculated separately for forever and denominated stamps. When a layer of forever stamps is no longer available for sale and is determined to be at the end of its life cycle, the difference between cumulative sales and cumulative usage (calculated as a percentage of cumulative sales) is deemed the forever stamp breakage percentage. *Id.* at 4. The breakage percentage is applied to forever stamp sales to estimate the revenue from breakage for all remaining open forever stamp layers, until the remaining layers expire and become the new basis for estimating the breakage percentage. *Id.* The current breakage percentage is 3.69. *Id.* at n.4.

The Postal Service currently estimates the PIHOP liability at the end of each accounting period. *Id.* at 5. PIHOP liability is calculated by subtracting the stamp breakage and stamp usage from stamp sales. *Id.* For example, if sales are \$100, usage is \$80, and the breakage percentage is 3.69, the liability will be \$16.31 ( $\$100 - \$80 - (3.69\% \times \$100)$ ).

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<sup>6</sup> The BRAf ratio is calculated by subtracting the revenue from census revenue sources from the Trial Balance revenue and dividing the result by the ODIS-RPW single-piece sampling revenue. Each ODIS-RPW single piece category is multiplied by the BRAf ratio to calculate adjusted ODIS-RPW sampling estimates, the sum of which equals the Trial Balance revenue.

### III. POSTAL SERVICE PROPOSAL

The Petition requests a change in RPW methodology associated with forever stamp usage, breakage, and PIHOP. The Postal Service proposes using mail pieces sent with forever stamps, currently part of the ODIS-RPW sampling estimates adjusted by the BRAF ratio, as census data. Petition at 1. Forever stamp census data would be used directly in the RPW Report. Two related changes are also proposed with respect to the BRAF formula. First, forever stamp usage would be removed from the denominator of the BRAF ratio. Second, breakage for all stamps would also be removed from the denominator of the BRAF formula. Petition, Proposal One at 10. In addition, breakage for all stamps will be assigned to Market Dominant Other Revenue in the RPW Report, and PIHOP revenues, including meter PIHOP, would no longer be allocated directly to products. *Id.* at 10-11.

*Rationale.* The Postal Service identifies three problems with the current RPW methodology. *Id.* at 7-9. First, estimated forever stamp usage is included in ODIS-RPW single-piece sampling revenue, which affects other products adjusted by the BRAF ratio. *Id.* at 7. Second, the allocation of breakage to products adjusted by the BRAF ratio has an increased impact on product revenues because breakage rates have increased substantially since forever stamps were introduced in 2007.<sup>7</sup> Petition, Proposal One at 8. Third, large increases or decreases in deferred revenue due to forever stamp PIHOP adjustments disproportionately affect monthly RPW product estimates and make those estimates not credible. *Id.* at 8-9.

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<sup>7</sup> Currently, stamp breakage and the PIHOP adjustment are allocated to products using two distribution keys, stamped volume and meter volume. See Docket No. RM2011-11, Order Concerning Analytical Principles Used in Periodic Reporting (Proposal Three), August 19, 2011, at 3, 5 (Order No. 816).

#### IV. COMMENTS

The Public Representative filed comments on July 22, 2015.<sup>8</sup> The Greeting Card Association (GCA) and the Postal Service separately filed reply comments on August 3, 2015.<sup>9</sup>

*Public Representative's comments.* The Public Representative recommends the Commission approve the Postal Service's proposal to use ODIS-RPW estimates for products bearing forever stamps directly in the RPW. PR Comments at 2. However, she recommends the Commission reject the Postal Service's proposal to eliminate the allocation of stamp breakage to products and to eliminate the allocation of PIHOP adjustments to products. *Id.*

The Public Representative argues that costs should be attributed to products through causal relationships and accordingly, revenues should be allocated to products when a causal relationship can be found between a product and revenues. *Id.* She compares the treatment of empty space in purchased highway transportation, which is allocated to products, with Proposal One. *Id.* at 3. She contends that the Postal Service's methodology with respect to purchased highway transportation "recognizes that if it was not for the mail on the truck, the Postal Service would not have incurred the cost of the excess capacity." *Id.*

Following this reasoning, the Public Representative concludes that neither PIHOP nor breakage revenue would exist if not for the products mailed using stamps or meters. *Id.* She, therefore, urges the Commission to reject the Postal Service's proposal with respect to stamp breakage and Stamp and Meter PIHOP and maintain the allocation scheme specified in Order No. 816. *Id.* at 3-4.

*GCA reply comments.* GCA concurs with the recommendations of the Public Representative. GCA Reply Comments at 1. GCA comments that the type of causal

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<sup>8</sup> Public Representative Comments, July 22, 2015 (PR Comments).

<sup>9</sup> Reply Comments of the Greeting Card Association, August 3, 2015 (GCA Reply Comments); Reply Comments of the United States Postal Service Regarding Proposal One, August 3, 2015 (Postal Service Reply Comments).

relationships that are used to allocate costs to products is equally suited to allocating revenues to products. *Id.* GCA argues that the reasoning adopted by the Commission in Order No. 816, relating to PIHOP, should also apply to breakage revenue. *Id.*

*Postal Service reply comments.* The Postal Service argues that due to the integrated nature of RPW reporting, rejection of one component of the Proposal would disrupt the RPW process. Postal Service Reply Comments at 4. The Postal Service includes an illustration of the interdependent procedures to show the current procedure and the Proposal. *Id.* at 2, 4; see also Excel file “*Reply.Cmmnts.Illustration.XLS*.” The illustration highlights the calculation of the BRAF ratio, and details the adjustments to the reported ODIS-RPW estimates by product, under both the current methodology and the proposed methodology.

The Postal Service also argues that the Public Representative’s use of cost attribution analysis as an analogy in the evaluation of breakage is misguided. *Id.* at 4. The Postal Service contends that the Public Representative’s argument (*i.e.*, that breakage would not exist without the existence of stamped products) should not be used to justify an allocation to the products that use stamps. *Id.* at 5. The Postal Service reasons that if stamps are bought by a mailer, who intends to use those stamps, but instead misplaces or inadvertently discards those stamps; then the misplaced or discarded stamps are never used and therefore there are no mail pieces associated with those stamps. *Id.* Consequently, according to the Postal Service, there are no costs associated with pieces of mail that do not exist. *Id.* The Postal Service reasons that allocating breakage to products, solely because the stamps were intended for use on mail products, would confound cost coverage evaluation and is inappropriate. *Id.*

## V. COMMISSION ANALYSIS

The Commission approves Proposal One. The Commission finds that adoption of the Postal Service’s proposal to use ODIS-RPW estimates for products bearing forever stamps directly in the RPW (and not adjusted by the BRAF ratio) will improve

the quality and accuracy of the revenue, pieces, and weight as reported in both the quarterly and annual RPW Reports. This will also improve the quality and accuracy of the Commission's analysis of product compliance with the objectives and factors of 39 U.S.C. § 3622(b) and (c) and 39 U.S.C. § 3633(a)(2), (3).

The Commission also approves the Postal Service's related changes to the BRAF formula. Specifically, breakage from stamps will be assigned to Market Dominant Other Revenue in the RPW Report, and PIHOP revenues, including meter PIHOP, will no longer be allocated directly to products. The Commission finds that approval of this component of the Proposal increases the accuracy of RPW Reports.

The Postal Service's revenues and costs are determined on the accrual method of accounting and are based on Generally Accepted Accounting Procedure (GAAP) principles. In accordance with GAAP, when a service (*e.g.*, delivery of First-Class Mail) and tangible property (*e.g.*, postage in the form of stamps or meter strips) are offered as a single transaction, the tangible property is incidental to the rendering of the service.<sup>10</sup> This type of transaction is known as a service transaction and the resulting revenue is recognized when "the performance of that final act occurs." *Id.* at 387.

The Postal Service recognizes revenue from stamps sold at the time the stamp is used. Likewise, the cost of processing and delivering the stamped or metered mail piece is incurred and recognized at the same time as the recognition of the revenue from the stamp. This treatment comports with the matching principle of GAAP; specifically, costs for the delivery of a mail piece are "recognized as [an] expense in the period that the revenue with which they are associated is recognized (the matching principle)." *Id.* at 388.

The Public Representative advocates continuing to allocate the breakage and PIHOP adjustments to products. However, the matching principle makes clear that breakage should not be allocated to products as the performance of the service underlying the sale of the unused postage has not been completed and never will be

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<sup>10</sup> Joanne M. Flood, *Wiley GAAP 2013: Interpretation and Application of Generally Accepted Accounting Principles*, 385 (Mark Edwards, ed., 2013).

completed. Therefore, the change proposed to eliminate the allocation of breakage to products and instead assign this revenue to Market Dominant Other Income is appropriate.

This is also true for the Postal Service's proposed PIHOP adjustments. The adjustments to PIHOP are based on the amount of stamp sales, less stamp usage, less breakage. In general, PIHOP represents the change in the amount of postage that has not been used, but is anticipated to be used in the future. Since, this adjustment cannot be "matched" with the costs of providing the service, allocating this adjustment is not in conformance with the matching principle. Therefore, PIHOP revenue should not be recognized as revenue for a period or allocated to products.

*It is ordered:*

For purposes of periodic reporting, the Commission accepts the changes in analytical principles proposed by the Postal Service in Proposal One as set forth in the body of this Order.

By the Commission.

Shoshana M. Grove  
Secretary